ENERGY/RHG*

Decision _________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHWEST GAS CORPORATION U-905-G, for authority to: (i) issue one or more types of Debt Securities in the principal amount of up to $550,000,000; (ii) refinance previously issued short-term debt securities; and (iii) enter into one or more interest rate risk management contracts.	Application 01-08-012 (Filed August 10, 2001)

<u>O P I N I O N</u>

Summary

This decision grants Southwest Gas Corporation (Southwest) the authority requested in Application (A.) 01-08-012 (Application).

Southwest requests authority, pursuant to Public Utilities (PU) Code §§ 816, 817, 818, 821, 822, 823, and 830 for the following:

1. to obtain debt capital in an aggregate principal amount of up to $550,000,000 directly through the issuance and sale of debentures, notes, medium-term notes, bonds, loans, or other evidence of indebtedness which includes, without limitation, commercial paper programs, extendible commercial notes, banker's acceptances, or other short-term instruments (Debt Securities) which are or may become available in the capital markets or indirectly through governmental entities;

2. to refinance, refund, or replace its current level of short-term debt securities through the issuance and sale of authorized Debt Securities; and

3. to enter into one or more arrangements to manage interest rate risk associated with Southwest's outstanding and future debt, including without limitations, interest rate swaps, caps, floors, collars or similar interest rate management methods.

Southwest proposes to use the proceeds from the issuance of Debt Securities for purposes allowed under § 817 of the PU Code, and specifically to refinance $450,000,000 of debts maturing in June 2002.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of August 15, 2001. No protests have been received.

Background

Southwest, a California corporation, is a public utility under the jurisdiction of this Commission, and is primarily engaged in the business of distributing and selling natural gas in certain portions of San Bernardino, El Dorado, Placer and Nevada Counties, California. Southwest is also engaged in the intrastate transmission, sale, and distribution of natural gas as a public utility in certain portions of the states of Nevada, and Arizona and is a "natural gas company," within the meaning of the Natural Gas Act, subject to the jurisdiction of the Federal Energy Regulatory Commission with respect to interstate transmission facilities and sales of natural gas for resale on its northern Nevada system.

For the 12 months ended March 31, 2001, Southwest had gas operating revenues of $1,050,851,805 and net income of $42,873,330. Southwest earned 59.5% of its gas operating revenues in Arizona, 11.88% in California, and 28.62% in Nevada.

Debt Securities

Southwest seeks authorization to issue debt in an aggregate principal amount of up to $550,000,000. Of this amount, $450,000,000 is intended to refinance existing debts and $100,000,000 as new money intended for future financing requirements.

The Application states that the precise amount and timing of each type of debt obligation; the market in and the method by which it will be issued; and the terms and provisions, price, and interest rate (which may be fixed adjustable, variable or set by auction, remarketing, or other rate setting procedures) will be determined by Southwest, with due regard for its financial condition and requirements then prevailing and anticipated market conditions, including competing demands for funds, existing at the time of sale. Southwest proposes to issue any of the following:

1. Bonds or Debentures

Debt Securities may be sold either domestically or in foreign capital markets, may be publicly offered or sold privately, and may have fixed or variable rates of interest (including interest rates based upon market indices or interest rates set by auction or remarketing or other rate setting procedures) and may be issued in secured, unsecured, senior, or subordinated form. Such securities will be issued in accordance with an indenture, purchase agreement, or other document that would set forth the aggregate principal amount, interest rate or rates, maturities, default, and other material provisions and may provide for the conversion into, or the issuance of warrants or rights with respect to, Preferred Securities or Common Stock to the extent authorized.

2. Notes

Southwest may issue notes which may be offered on a continuous or discrete basis, unsecured, convertible, or with warrants or rights with respect to any debt or equity securities previously authorized or the authority under the Application, with maturities generally ranging from nine months to 15 years, although maturities of up to 40 years are possible. Such notes may be sold in public or private offerings, with fixed or floating rates, in senior or subordinated form, and are generally sold on a best-efforts or agency basis with maturities tailored to an investor's specific maturity requirements.

3. Loans and Private Placement Indebtedness

From time to time it may be advantageous for Southwest to borrow directly from banks or through direct loans from insurance companies or other financial institutions by private placement of notes or other forms of indebtedness. Southwest may use borrowings of this nature in order to obtain funds at competitive rates and attractive terms and increase its financial flexibility. Loans and indebtedness incurred in the private placement market may have fixed or variable rates of interest (including rates based upon market indices or interest rates set by auction or remarketing or other rate setting procedures) and may be issued in secured, senior, or subordinate form. Loans and indebtedness will be issued in accordance with an indenture, credit agreement, loan agreement, note holders agreement, purchase agreement, or other borrowing documents that would set forth the aggregate principal amount, interest rate or rates, sinking fund payments, maturities, extensions of maturities, events of default, covenants, or other material provisions.

4. Other Floating Rate Debt

The types of such debt include, but are not limited to, banker's acceptances, commercial paper programs, extendible commercial notes, and other short-term variable rate instruments which are or may become available in the capital markets.

5. Tax-Exempt Debt Securities

The Debt Securities may also be issued indirectly through one or more governmental agencies and loaned to Southwest, with such loans evidenced by entering into a financing agreement as described below. Each financing will be issued through the use of an indenture, bidding and offering document, purchase agreement, loan agreement, underwriting agreement, or other documents and instruments customary for the financing method selected by Southwest.

Southwest may have the opportunity to issue securities under the aegis of governmental agencies (Agency) by unconditionally guaranteeing or otherwise securing such Agency's obligations in respect to its issuance of tax-exempt debt in connection with the financing of Southwest's facilities. The utility anticipates using the tax-exempt option whenever its facilities qualify for tax-exempt financing under federal law and such financing is available on terms more favorable than those available for taxable financing. It is currently contemplated that such financing would require Southwest to enter into, concurrently with the sale and issuance of such securities, a loan agreement and/or a guarantee arrangement with the Agency regarding such securities.

Interest Rate Risk Management Contracts

Southwest requests authority to enter into one or more contracts for the purpose of managing interest rate risk. Such contracts could take a number of forms including interest rate swap agreements, interest rate cap agreements, interest rate floor agreements, and interest rate collar agreements. Such contracts could also include hedging future fixed rate debt issuance such as Treasury locks, caps and collar agreements.

1. Interest Rate Swap Agreements - involve the exchange of a series of interest rate payments between two parties based on a notational amount for a specific period of time. In such an exchange, one party may convert fixed interest rate payments into more favorable fixed or floating-rate payments, or to convert floating-rate payments tied to one index into floating-rate payments tied to another index or into more favorable fixed rate payments; and

2. Other Rate Management Agreements (Caps, Floors & Collars) - used to modify the maximum and/or minimum rates paid on variable interest rate debt. An interest rate cap is akin to an option whereby the holder of the variable rate debt pays a premium in order to gain protection from interest rates rising above the rate specified in the agreement for the term of the cap. An interest rate floor is akin to an option whereby the folder of such debt receives a premium and in exchange agrees to pay a minimum rate should a specified interest rate index fall below the minimum rate during the term of the floor. An interest rate collar is any combination of an interest rate cap and floor.

3. Contracts for hedging future fixed rate debt issuances include: (i) Treasury Lock Agreements - used to “lock in” the forward rate of a specific Treasury or other security on which a fixed rate debt will be priced at a specific date in the future; (ii) Treasury Cap Agreements - used to “lock in” the maximum forward rate of a specified Treasury or other security on which a fixed rate debt issuance will be priced at a specified date in the future; and (iii) Treasury Collar Agreements - used to “lock in” a range of forward rates of a specified Treasury or other security on which a fixed rate debt issuance will be priced at a specified date in the future.

For purposes of this Application, Southwest will be subject to the following conditions:

1. Southwest should provide the Energy Division a report providing the following information concerning the amount of interest rate management contracts and other derivative financial instruments: date of execution, date of expiration, amount, counterparty, counterparty rating, nature of transaction, index used, and termination provisions.

2. Southwest should provide the Energy Division a copy of any agreement Southwest enters into in connection with the issuance of bonds.

3. Southwest should limit its exposure to any one counterparty to no more than 20% of its total counterparty exposure.

4. Southwest should limit its counterparty portfolio exposure as follows:

Counterparty Rating	Limitation
AAA	no limitation
AA	no limitation
A	no more than 50% of the total amount of counterparty exposure
BBB	no more than 20% of the total amount of counterparty exposure

5. Southwest's variable rate exposure (unhedged variable rate debt and fixed to floating interest rate risk management contracts) should not exceed 20% of the total debt outstanding.

6. Southwest should separately report all interest income and expense arising from all interest rate transactions in all monthly and annual financial reports to the Commission.

Southwest is placed on notice by this decision that the Commission may review the reasonableness of the effective interest rates for swaps, interest rate cap, floor or collar agreements issued by Southwest in conjunction with Southwest's general rate case or other ratemaking proceedings.

Competitive Bidding Rule

The Competitive Bidding Rule applies only to utilities with bond ratings of "A" or higher (item 6 of Resolution No. F-616). Southwest's debt rating is "BBB-" as reported in the August 2001 C.A. Turner Utility Report and "Baa2" in the March 2001 Moody's Bond Rating. Accordingly, Southwest is exempted from the Competitive Bidding Rule in connection with this authorization.

Construction Budget

Southwest's forecasted construction expenditures for calendar years 2001 through 2003 are as follows:

(Thousands of Dollars)

Components	2001	2002	2003
Gas Distribution Plant	$174,700	$174,600	$167,400
Transmission Plant	10,600	20,500	34,100
General and Other Plant	42,500	35,000	34,900
Total	$227,800	$230,100	$236,400

Southwest's construction expenditures total $694,300,000 for 2001 through 2003.

Cash Requirements Forecast

Southwest's Statement of Cash Requirements for 2001 through 2003 are as follows:

(Thousand of Dollars)

Uses of Funds	2001	2002	2003	Total
Funds Used or Required for Construction Expenditures	$227,800	$230,100	$236,400	$ 694,300
Maturities/Refinancings:				
Redemption of Preferred Securities	-	-	-	-
Long-Term Debt	-	580,000	-	580,000
Short-Term Debt at Beg. Of Year to be Refinanced	131,000	47,000	56,800	234,800
Total	$358,800	$857,100	$293,200	$1,509,100
Less: Estimated Cash Available from Internal Sources	96,000	209,300	138,200	443,500
Additional New Funds Required from Outside Sources	$262,800	$647,800	$155,000	$1,065,600

Southwest's Statement of Cash Requirements indicates that it would require additional funds from external sources amounting to $1,065,600 for 2001 through 2003.

Capital Ratios

Southwest's capital ratios as of March 31, 2001, are shown below as recorded and as adjusted to give pro forma effect to the transactions listed :

(Thousands of Dollars)

	Recorded		Adjustments	Pro Forma	
Common Equity	$ 563,682	33.8	$ 259,836 (a)	$ 823,518	37.3
Preferred and Preference Equity	60,000	3.6	180,000 (b)	240,000	10.9
Short-Term Debt	-	-	-	-	-
Long-Term Debt	1,041,908	62.6	100,000 (c)	1,141,908	51.8
Total	$1,665,590	100.0	$ 539,836	$2,205,426	100.0

(a) 11,056,864 shares at an estimated average $23.50/share which include the following:

(1) 4,765,200 unused shares at an estimated $23.50/share under authority granted in D.00-11-034.

(2) 4,234,800 new shares at an estimated $23.50/share under authority granted in D.00-09-009, as amended by D.00-09-053.

(3) 2,056,864 shares reserved but unissued for Company benefit plans at an estimated $23.50/share under authority granted in D.00-11-034 and D.00-11-035.

(b) $180 million of preferred securities as follows:

(1) $100 million under the authority granted in D.00-11-034 and D.00-11-035.

(2) $80 million of preferred stock under the authority granted in D.00-09-009, as amended by D.00-09-053.

(c) $100 million of debt authority as follows:

(1) $550 million of authority requested in the Application.

(2) Less: $450 million of authority anticipated to be utilized in refinancing[1] which may not meet the "Evergreening Authority" guidelines.

[1] $100,000,000 Series F Debentures and $350,000,000 revolving bank facility maturing in June 2002.

(3) $130 million of existing long-term Industrial Development Revenue Bonds will be refinanced under the Commission's "Evergreening Authority" guidelines[2].

Capital structures are normally subject to review in cost of capital or general rate case proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes.

Use of Proceeds

Southwest proposes to use the proceeds from the issuance of debt for the following purposes (i) acquire property; (ii) construct, complete, extend, or improve its facilities (iii) refund maturing debt and preferred securities; (iv) fund payments or redemption requirements of debt and preferred securities (including any premiums required in connection therewith); (v) retire (through defeasance or otherwise), refinance, or exchange existing preferred securities and short- and long-term debt (including any premiums required in connection therewith; or (vi) reimburse its treasury for monies expended for expansion and betterment of its facilities.

During calendar years 2001 through 2003, Southwest anticipates construction expenditures of approximately $694,000,000. During that same period, Southwest anticipates refinancing approximately $580,000,000 in existing long-term debt.

In D.00-09-009, Southwest retained the ability to refinance, refund, or replace authorized securities at maturity, upon mandatory redemption, upon repurchase of mandatory sinking fund requirements, or upon optional refinancing to reduce financing cost through the use of the "Evergreening Authority."

Evergreening provides a utility pre-authorization to issue securities for the purpose of refinancing securities at maturity, upon mandatory redemption, upon repurchase for mandatory sinking fund requirements, or upon optional refinancing to reduce financing costs, without

[2] D.94-12-018 dated December 7, 1994 as extended by D.00-09-009 dated September 7, 2000, granted Southwest "Evergreening Authority" (for long-term debt securities, preferred stock, and common stock). Evergreening provides a utility pre-authorization to issue securities for the purpose of refinancing securities at maturity, upon mandatory redemption, upon repurchase for mandatory sinking fund requirements, or upon optional refinancing to reduce financing costs, without corresponding new issue amounts being charged against Commission authorizations for "new money" securities. Evergreening is not intended to facilitate changes in a utility's capital structure or in the nature of the underlying assets being financed, or to expand the permitted uses of proceeds under the PU Code. Debt may be replaced only with debt, preferred stock with preferred stock, and common stock with common stock.

corresponding new issue amounts being charged against Commission authorizations for “new money” securities. Evergreening is not intended to facilitate changes in a utility’s capital structure or in the nature of the underlying assets being financed, or to expand the permitted uses of proceeds under the PU Code. Debt may be replaced only with debt, preferred with preferred, and common with common.

Of the $580,000,000 of existing long-term debt that will be either maturing or subject to refinancing during the next three years, Southwest anticipates that approximately $130,000,000 will be refinanced through the use of its “Evergreening Authority” beginning in September 2002, if favorable market condition exists. The $450,000,000 debt ($100,000,000 Series F Debentures plus $350,000,000 revolving bank facility) will be refinanced from the $550,000,000 authority requested in the Application. Southwest states in its supplemental data to the Application that these refinancings, due to pricing and maturities, are currently outside the evergreening guidelines to permit the use of Southwest’s “Evergreening Authority”. The Series F Debentures are only callable at maturity, while the pricing of the revolving bank facility cannot be matched under current market conditions.

Once the planned refinancings have been completed, Southwest is projecting the issuance of the remaining new debt of $100,000,000 to meet future financing requirements.

Southwest states in the Application that other floating rate debt may include other short-term variable rate instruments. Pursuant to PU Code § 823(b), a public utility may issue notes, for proper purposes and not in violation of any provision of law, payable at periods of not more than 12 months after the date of issuance of the notes without the consent of the Commission. However, the Application also states that Southwest intends to use the proceeds from the issue of debt capital to refinance or exchange existing preferred securities and short- and long-term debt.

PU Code § 823(d) provides that no note payable at a period of not more than twelve months after the date of issuance of such note shall, in whole or in part, be refunded by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the Commission.

For purposes of this Application and pursuant to PU Code 823(d), we will permit Southwest to refinance, refund, or replace short-term debt with the authority granted in this decision.

Pursuant to General Order No. 24-B, we will require Southwest to file monthly a statement showing all receipts and disbursements from the sale of the Debt Securities authorized in this decision.

In Resolution (Res.) ALJ 176-3069 dated August, 23, 2001, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ 176-3069.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to PU Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Findings of Fact

1. Southwest, a California corporation, is a public utility subject to the jurisdiction of this Commission.

2. Southwest needs external funds for the purposes set forth in the Application.

3. The authorized issue of debt obligations is for proper purposes and is not adverse to the public interest.

4. Authorizing Southwest to determine the precise amount and timing of each debt issue, the market in and method by which each debt issue is effected, and the price, interest rate, and other material provision of each debt issue would not be adverse to the public interest.

5. The use of interest rate risk management contracts, interest rate swap agreements, and other rate management agreements in appropriate circumstances are not adverse to the public interest. These features are tools which may improve the terms and conditions of debt issues and may lower overall cost of money for the benefit of ratepayers.

6. Southwest's California operating revenues are 11.88% of its total operating revenues.

7. Notice of the filing of the Application appeared on the Commission's Daily Calendar of August 15, 2001. There is no known opposition to this Application, and the authority requested should be granted, subject to the conditions below.

Conclusions of Law

1. A public hearing is not necessary.

2. The Application should be granted to the extent set forth in the order, which follows.

3. The authorized financing transactions are for lawful purposes and the money, property, or labor to be obtained is required for these purposes. The proceeds may not be charged to operating expenses or income.

4. Southwest should limit its exposure to any one counterparty to no more than 20% of it's total counterparty exposure.

5. Southwest's variable rate exposure (unhedged variable rate debt and fixed to floating interest rate risk management contracts) should not exceed 20% of the total debt outstanding.

6. PU Code § 817(d) provides that debt issues may be used for the discharge or lawful refunding of obligations.

7. PU Code § 823(d) provides that no note payable at a period of not more than 12 months after the date of issuance of such note shall be refunded, in whole or in part, by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the Commission.

8. General Order No. 24-B requires utilities with financing authorities from the Commission to submit monthly reports showing receipts and disbursements from the sale of stocks, bonds, and other evidences of indebtedness.

9. The Competitive bidding Rule applies only to utilities with bond ratings of "A" or higher.

10. Southwest has previously paid the fee of $38,678 determined in accordance with PU Code § 1904(b) and in proportion to its California operating revenues.

11. The following order should be effective on the date of signature.

ORDER

It is **ORDERED** that:

1. On or after the effective date of this order, Southwest Gas Corporation (Southwest), upon terms and conditions substantially consistent with those set forth or contemplated in Application 01-08-012 (Application), is authorized to issue and obtain debt capital in an aggregate amount not to exceed $550,000,000, in addition to its existing authority, through the direct issuance of one or more types of indebtedness, including, without limitation, debentures, bonds, notes, bank loans, private placements, commercial paper programs, extendible commercial notes, bankers' acceptances, and other short-term variable-rate instruments (Debt Securities) which are or may become available in the capital markets or indirectly through one or more governmental agencies for the purposes specified in the Application.

2. Southwest may determine the precise amount and timing of each debt financing, the market in and method by which each is issued, the principal amounts and maturities and, if any, the terms of redemption, repurchase security, other security, subordination and conversion provisions, rights, warrants, and the other terms and provisions and the price and interest rate (which may be fixed, adjustable, variable, or set by auction, remarketing, or other rate setting procedures) of the borrowings and of any securities related thereto or issuable in connection therewith in the manner set forth in the Application.

3. Southwest may refinance $450,000,000 of existing debt described in the Application by the issuance and sale of Debt Securities authorized in this order.

4. Southwest may refinance, refund, or replace short-term debt securities by the issuance and sale of Debt Securities authorized in this order.

5. Southwest's variable rate exposure (unhedged variable rate debt and fixed to floating interest rate risk management contracts) shall not exceed 20% of the total debt outstanding.

6. Southwest shall limit its exposure to any one counterparty to no more than 20% of its total counterparty exposure.

7. Southwest shall limit its counterparty portfolio exposure as follows:

Counterparty Rating	Limitation
AAA	no limitation
AA	no limitation
A	no more than 50% of the total amount of counterparty exposure
B	no more than 20% of the total amount of counterparty exposure.

8. Southwest shall provide the Energy Division a report providing the following information concerning the amount of interest rate management contracts and other derivative financial instruments: date of execution, date of expiration, amount, counterparty, counterparty rating, nature of transaction, index used, and termination provisions.

9. Southwest shall provide the Energy Division a copy of any agreement Southwest enters into in connection with the issuance of bonds.

10. Southwest shall notify the Energy Division in writing of the nature of any new offering of Debt Securities not specifically described in the Application prior to its issuance.

11. Southwest shall separately report all interest income and expense arising from all interest rate transactions in all monthly and annual financial reports to the Commission.

12. On or before the 25th day of each month, Southwest shall file reports required by General Order No. Series 24-B.

13. The authority granted herein shall be effective until the financing authorization is fully utilized.

14. The Application is granted as set forth above.

15. A.01-08-012 is closed.

This order is effective today.

Dated ______________________, at San Francisco, California.